

## PROJECT SUMMARY

### Overview

Overall, the Texas Water Development Board's (TWDB) loan application review process includes sufficient internal controls to ensure the reliability and integrity of information, the safeguarding of TWDB's assets, and compliance with federal, state and TWDB requirements is achieved. However, significant improvements are required to ensure operational effectiveness and efficiency of the loan application review process. The TWDB made 93 financial commitments totaling over \$1 billion during the period January, 2010, to December, 2011. The loan application process is critical to the success of the agency, as it impacts all of the functions within the agency.

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The loan application review function is shared between Conservation, Legal Services, Program & Policy Development, Project Development, Project Engineering & Review, Project Oversight, and Water Resource Planning & Information.

Management has been responsive to the audit and has initiated actions in an effort to address some of the issues discussed in this report.

### Summary of Significant Results

#### *Operational Effectiveness*

The application review process lacks a strong accountability framework that provides decision-making information regarding operational effectiveness and efficiency. The lack of accountability could be cited as the cause of many of the issues included in this report.

- Management has not provided a clear articulation of authorities, criteria, and roles. In addition, the loan application process does not document absolute levels of responsibility for different aspects of the application.
- The process lacks formal performance targets, such as quantitative goals and performance timelines. Staff performance plans do not provide a clear basis for assessing and rewarding performance - quantitative performance targets.
- Management has not routinely tracked actual application review turnaround performance data to assist in solving problems such as untimely delivery, uneven work distribution, and employee productivity.
- Management has not sought customer feedback on the quality of the review process.

- The process has not provided senior management with periodic reports on the key performance indicators.
- The different disciplines involved in the application review process tend to operate in silos, which does not help with communication within the multi-disciplinary teams.
- In a typical application review cycle, staff attends as many as 25 meetings to discuss projects being considered in that cycle. Many of these are duplicative. Some of the meetings can have as many as 50 attendees, which is expensive. Further, there are no formal meeting procedures.

### *Operational Efficiency*

The application review process is not efficient and requires improvement. The reviews are not performed in a timely manner.

- It takes staff an average of 163 days to bring an application to the Board for a financial commitment. Reviews range from 80 to 268 days. This is excessive especially considering that it takes TWDB staff another 90 days, over a period of 6 months to a year, to close the loan.
- The initial part of the review, to check the application for administrative completeness, takes an average of 46 days, and ranges from 2 to 177 days.
- A large percentage of the applications reviewed are incomplete at the time they are submitted. This is an issue that staff struggles with, without adequate guidance and oversight from management.
- The substantive/technical part of the review, that considers the legal, financial, engineering and environmental aspects of the proposed project, takes an average of 73, 94, 76, and 89 days, respectively. This is not timely.
- Clients generally do not respond to information requests within 14 days, as required by 31 Texas Administrative Code §371.31 and §375.41. TWDB staff has not enforced this rule.
- Staff spends a considerable amount of effort and time working on applications that are eventually withdrawn mostly due to the client's failure to provide the required information. In these cases, TWDB staff has not been able to balance between "assisting the client as much as possible" and maintaining a viable TWDB process.
- Staff reviews are followed by several levels of management review, including a loan committee review. Financial reviews also go through a credit committee review. This is excessive.

- The agency's new project management information system (TxWISE) is not being used to its full potential. Some reviewers have chosen to bypass TxWISE in favor of manual processes. This undermines the innovative benefits of such a system.

### *Due Diligence*

Overall, the due diligence review process has the necessary components to ensure the project for which financial assistance is being sought provides a feasible, cost-effective and program-eligible solution to the water management problem at hand, and that the client has the financial ability to repay the loan.

Fifteen percent (14 out of 93) of the TWDB's commitments for the period January, 2010, to December, 2011, were to applicants with a TWDB internal credit rating of lower than 2B. These represent approximately 2 percent of the total amount committed.

Management has not provided staff with clear documentation standards. As a result, the level of documentation for financial and legal reviews is inadequate and inconsistent.

### *Regulatory Compliance*

While most of the State Revolving Fund projects reviewed had not completed their planning, acquisition and design activities, all (except for 1) were funded under the pre-design funding (PDF) option, with no evidence of serious consideration of the planning acquisition and design (PAD) option.

The agency lacks a central depository of policies and procedures.

## Summary of Management's Response

Management appreciates the acknowledgement that sufficient controls exist in the process to ensure reliability and integrity of information, safeguarding of assets and compliance with requirements. Management also acknowledges that improvements can be made to the process, primarily through documentation of processes and work, automated solutions, and setting timelines and targets. This report contains several recommendations which management will plan to implement over the next year in order to improve the operational effectiveness of the process.

## Scope

The audit focused on the loan application review process from when the application was received to when the Board commitment was made. The audit focused primarily on activities from September 1, 2010, to November 30, 2011. Fieldwork was conducted from October through December, 2011.

## **OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES**

### **1. Operational Effectiveness**

The process lacks a strong accountability framework that provides information for effective decision-making regarding the effectiveness and efficiency of the loan application review process. A strong accountability framework would synthesize information from key management processes such as performance measures, performance targets (e.g. review times), formal quantitative goals (for each area), employee productivity, and customer feedback. In addition, the framework would provide a clear basis for assessing and rewarding performance. For it to work, the framework would need to be supported by effective communication processes, and employee training. A strong accountability framework is particularly important for this process because the loan application process impacts all of the functions within the agency. The absence of a strong accountability framework makes it difficult for management to determine the root causes of problems, identify corrective actions, and monitor the day-to-day activities of operations.

#### **1.1 Timelines and Accountability Controls**

##### **Observation**

Management has not provided a clear articulation of authorities, criteria, and roles. The loan application process has not documented absolute levels of responsibility for different aspects of the application. In addition, there is confusion over Project Oversight's new role in the application review process. The lack of clearly defined responsibilities, authorities, criteria and roles makes it difficult for senior management to hold individuals accountable for unsatisfactory work performance. Additionally, the lack of clarity makes it more difficult to coordinate multi-disciplinary tasks and elevates the risk that some essential tasks may be overlooked while some may be duplicated.

The process lacks formal performance targets, such as quantitative goals and timelines. In addition, management has not routinely tracked actual application review turnaround data to assist in solving problems such as untimely delivery, uneven work distribution, and employee productivity. Management has not communicated clear expectations. While management has recently circulated some performance targets, they are informal, incomplete, and unclear. For example, they do not include a target for the "administratively complete" review and discussions with staff revealed some confusion over management's expectations on the depth of both the "administratively complete" and the 10-day technical reviews. This elevates the risk that the application review goals are not accomplished in an effective and efficient manner.

Management has not sought customer feedback on the quality of the loan application review process. Client feedback provided as part of the agency-wide survey is generally fairly high-level. Customer satisfaction ratings are a key performance indicator and focus employees on the importance of fulfilling customer expectations. Furthermore, when these ratings dip, they warn of problems that can affect the demand for agency services. Since the agency interaction with its

customers is fairly infrequent, the agency should use both transactional and relationship-type surveys. A transactional survey focuses on satisfaction with a specific transaction e.g. a particular loan application. Customers are highly likely to respond and give honest feedback within 24 to 48 hours of the purchase (loan closing). With a simple email response, a link to a survey can be delivered that captures key customer metrics and satisfaction scores. A relationship-type survey asks the customer about all or most aspects of the service relationship.

A customer satisfaction survey program allows management to measure and monitor customer satisfaction consistently and regularly. This provides hard data which, in turn, allows management to act on insight, not instinct. Not having such a program increases the risk that TWDB is non-responsive to client needs which, in turn, could result in decreased demand for the agency's products and services.

### Recommendations

Management should improve operational effectiveness by developing a strong accountability framework that provides information for decision-making regarding the effectiveness and efficiency of the loan application review process by:

- (i) Clarifying, by way of written procedures, the responsibilities, authorities, criteria and roles for the different aspects of the application review.
- (ii) Implementing formal quantitative goals for each area and performance standards, including clear timelines for each stage of the application review process. The performance targets should form part of staff performance plans.
- (iii) Seeking client feedback on the quality of the loan application process and areas requiring improvement. Ideally, management should use both transactional and relationship-type surveys.
- (iv) Periodically analyzing key management processes such as performance measures, performance targets (e.g. review times), formal quantitative goals (for each area), employee productivity, and customer feedback. In addition, track each individual's actual performance against target as part of their annual performance evaluation. Eventually, the accountability framework should include all assigned work - not just the application review data. Otherwise, any interpretation of performance would be incomplete.

### Management's Response

- (i) Management agrees for the need of updated written procedures.

Responsible Parties: Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program and Policy Development; Deputy Executive Administrator, Project Oversight; Deputy Executive Administrator, Water Resources Planning & Information; Deputy Executive Administrator, Water Science & Conservation and Director, Project Development.

**Target Implementation Date: 8/31/2012**

- (ii) Management agrees that there are areas of necessary improvement in the loan application process, including targets and goals for timeliness of the various stages of the application review process.

Responsible Parties: General Counsel; Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program and Policy Development; Deputy Executive Administrator, Project Oversight; Deputy Executive Administrator, Water Resources Planning & Information; Deputy Executive Administrator, Water Science & Conservation and Director, Project Development.

**Target Implementation Date: 5/31/2012**

- (iii) Management agrees that seeking client feedback would provide valuable information on the loan application process as well as the communication with the customers.

Responsible Parties: Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Operations & Administration; Deputy Executive Administrator, Program and Policy Development; Deputy Executive Administrator, Project Oversight; and Director, Project Development

**Target Implementation Date: 12/31/2012**

- (iv) Management agrees that development and compilation of data, without periodic analysis, is not of much use. This analysis should become part of the annual procedure which would link with the annual performance appraisals.

Responsible Parties: General Counsel; Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program and Policy Development; Deputy Executive Administrator, Project Oversight; Deputy Executive Administrator, Water Resources Planning & Information; Deputy Executive Administrator, Water Science & Conservation and Director, Project Development.

**Target Implementation Date: 08/31/2013**

## 1.2 Communication

### Observation

Communication processes could be more effective and efficient. The different disciplines involved in the application review process tend to operate in silos, which does not help with communication within the multi-disciplinary teams. The current due diligence process involves professionals from different disciplines (i.e. legal, finance, environmental, engineering and planning) concurrently considering different aspects of the same application. This requires



ongoing, two-way, real-time communication of issues and concerns. The review found that the different disciplines are not necessarily open to each other's challenges and do not necessarily have a common language. Strong communication processes that utilize a common language are essential for cohesion and effective coordination in a multi-disciplinary team environment.

Since there is no clear accountability framework, the mail-out calendar and meeting log provide the only structure to the loan application review process. The firefighting that occurs in the last week leading to Board mail-out suggests this is not effective in ensuring issues are resolved and reviews are completed in a timely manner. In a typical application review cycle, staff attends as many as 25 meetings to discuss projects being considered in that cycle. Some of these meetings can have as many as 50 attendees, which is expensive. It takes staff away from other duties and exacerbates the issue with lengthy review timelines, while elevating the risk that resources are not used in an efficient manner. Discussions with staff indicate that many of the weekly project meetings are duplicative and neither provide new information nor generate much discussion on the issues. This suggests there may be more efficient ways to disseminate information. Meetings are the most expensive form of communication and having too many of them elevates the risk that resources are not being used in the most efficient manner.

There is no evidence of written procedures on many of the meetings that form part of the application review process. Without written procedures, it is difficult to determine meeting objectives, participants, attendees and ground rules. Many of the regular meetings do not provide attendees with an agenda and generally attempt to offer both project updates and issue resolution. This is generally not effective as problem solving meetings are more effective when ad hoc, focused, and with just the individuals relevant to the problem. Staff indicated that many of the problem-solving type meetings are not effective because the meeting leader does not always feel empowered to make the necessary decision. In addition, staff is not always sure who is responsible for a particular decision. This elevates the risk that the application review process is not efficient.

Meetings generally do not maintain minutes. Most of the meetings do not end with a quick meeting evaluation. The recent implementation of a centralized project information database, TxWISE, makes many of the status-update-type meetings redundant.

### Recommendations

Management should improve the effectiveness of communication processes by:

- (i) Brainstorming on how to increase cohesion within the multi-disciplinary teams, and implementing staff suggestions.
- (ii) Streamlining the current meeting log.
- (iii) Developing and publishing definitions of the key terms used in the application review process.
- (iv) Developing written procedures for each meeting. The written procedures should designate a leader for each meeting and require meeting leaders to provide attendees with an agenda

detailing the applications and issues for discussion prior to the meeting to assist them with preparation.

- (v) Providing meeting guidelines (including ground rules) and training on how to conduct effective meetings.
- (vi) As much as possible, utilizing TxWISE and email for project updates. This should include requiring reviewers to post (into TxWISE) information from meetings and phone calls with clients to keep the rest of the team abreast of developments.
- (vii) Clarifying responsibility and authority levels to guide staff's decision-making.

### Management's Response

- (i) Management agrees that improved communication would enhance the loan application process. Through the process of updating procedures, input will be sought for ways in which to improve communications.

Responsible Parties: Executive Administrator, Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program and Policy Development; Deputy Executive Administrator, Project Oversight; Deputy Executive Administrator, Water Resources Planning & Information; Deputy Executive Administrator, Water Science & Conservation and Director, Project Development.

**Target Implementation Date: 8/31/2012**

- (ii) Management agrees that there may be redundancy and inefficiencies with the current meeting schedule. Through the process of updating procedures, each meeting identified will be reviewed for usefulness and efficiency.

Responsible Parties: Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program and Policy Development; Deputy Executive Administrator, Project Oversight; and Director, Project Development.

**Target Implementation Date: 08/31/2012**

- (iii) Management agrees that using terms consistently will enhance communication across the agency and with applicants. Definition of terms should be included in the updated procedures.

Responsible Parties: Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program and Policy Development; Deputy Executive Administrator, Project Oversight; Deputy Executive Administrator, Water Resources Planning & Information; Deputy Executive Administrator, Water Science & Conservation and Director, Project Development.

**Target Implementation Date: 08/31/2012**



- (iv) Management agrees that meetings could be more efficient. Meetings identified as necessary to the process will be incorporated in to the procedures.

Responsible Parties: Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program and Policy Development; Deputy Executive Administrator, Project Oversight and Director, Project Development.

**Target Implementation Date: 08/31/2012**

- (v) Management agrees that meetings could be more efficient. Operations and Administration will provide training on effective meetings.

Responsible Party: Deputy Executive Administrator, Operations & Administration

**Target Implementation Date: 08/31/2012**

- (vi) Management agrees that with the development of TxWISE, it should be utilized more fully by all staff to document project information.

Responsible Parties: General Counsel, Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program and Policy Development; Deputy Executive Administrator, Project Oversight; Deputy Executive Administrator, Water Resources Planning & Information; Deputy Executive Administrator, Water Science & Conservation and Director, Project Development.

**Target Implementation Date: 08/31/2012**

- (vii) Management agrees that updated procedures should clarify roles, responsibilities and authority of staff.

Responsible Parties: Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program and Policy Development; Deputy Executive Administrator, Project Oversight; Deputy Executive Administrator, Water Resources Planning & Information; Deputy Executive Administrator, Water Science & Conservation and Director, Project Development.

**Target Implementation Date: 08/31/2012**

### 1.3 Employee Training

## Observation

Apart from continuing professional education, employee training is mostly on-the-job, which does not provide staff with an opportunity to learn from outside the agency. For example, the desk reviewers have not taken advantage of the agency's offer of construction project tours to obtain a better understanding of TWDB clientele's businesses. In addition, having a pre-application

meeting on-site could provide TWDB engineers and environmental scientists with a better feel for the proposed project. This would provide much needed background to the information submitted in the application.

### Recommendation

Provide desk reviewers the opportunity to periodically participate in on-site tours and outside training. Wherever feasible, hold pre-application meetings on-site. In addition, require staff to show initiative in identifying relevant training as part of the annual employee performance review process.

### Management's Response

Management agrees that both site visits to projects and applicable training are beneficial to staff, and will incorporate both within the budget available. Performance plans will be revised to incorporate the responsibility of staff to actively participate in independent job-related research and participating in both external and on-the-job training.

Responsible Parties: Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program and Policy Development; Deputy Executive Administrator, Project Oversight; and Director, Project Development.

**Target Implementation Date: 01/31/2013**

## 2. Operational Efficiency

### Observation

#### 2.1 Reviews are not performed in a timely manner.

The sample of loan applications tested took an average of 163 days from when the application was received to the TWDB commitment date, and ranged from 80 to 268 days. This is significantly longer than what management had perceived it to be. Management had estimated the reviews to take 60 to 90 days.

The review found that Clean Water State Revolving Fund (CWSRF) application reviews take much longer than the others (i.e. Drinking Water State Revolving Fund (DWSRF) and state programs). For the sample reviewed, CWSRF reviews took an average of 169 days, ranging from 127 to 268 days. This is excessive especially considering that it takes staff another 90 days over a period of six months to a year to close the loan. This could reduce the demand for TWDB financial assistance products and services. Management has not set and communicated formal review timeline targets. Management has not tracked timeliness of reviews. Much of the reviewers' work is driven by the mail-out calendar rather than by how long the review should take.

The review found the lengthy reviews to be due to a number of bottlenecks in the process and other issues, as briefly described below:

### 2.1.1 “Administratively Complete” Reviews

- (i) The “administratively complete” reviews are not performed in a timely manner. As shown in the table on the right, a sample of 30 applications showed the “administratively complete” review taking an average of 46 days, ranging from 1 to 177 days. Further analysis revealed that the CWSRF application reviews take the longest, averaging 80 days and ranging from 41 to 177 days. DWSRF and state program application reviews took about the same at 17 and 16 days, respectively. The above table shows that the lengthy CWSRF reviews were mainly due to lengthy “administratively complete” reviews which, in turn, may have been partly due to uneven work distribution. The fourth column shows, for context, the volume of applications received, by program, for the period under review. In addition, the CWSRF’s lengthy timeframes were partly due to a lack of management oversight. As indicated above, management did not track work distribution and performance data. This is not sustainable especially given that “administratively complete” reviews only seek to ensure that the application is complete and not that the individual responses are adequate.

Program	Sample Average Admin Complete (Days)	Sample Average Length of Review (Days)	Total # of Applications Processed
Overall	46	163	57 (100%)
CWSRF	80	167	26 (46%)
DWSRF	17	114	13 (23%)
State	16	146	18 (32%)

- (ii) The lengthy reviews are partly due to clients submitting incomplete applications. Accepting significantly incomplete applications amounts to an override of the rules within the Intended Use Plan that limit the time the client has to submit the application, once invited. In addition, the level of incompleteness on some of the applications raises questions on whether the client has the financial, managerial, and technical expertise necessary to manage the debt. To add to the lengthy reviews, the TWDB’s requests for the outstanding information are generally not timely. The table on the right shows the time lag between the application receipt and the date the first request for outstanding information was sent out for five of the projects that had the longest “administratively complete” reviews. Staff cites “conflicting priorities” as the cause for the untimeliness.

Project #	Application Date	# of Days to Request (Days)	Admin Review (Days)
73607	2/2/11	79	84
73606	4/6/11	72	105
73604	12/28/10	72	177
73603	12/28/10	63	84
73622	6/8/11	42	58

A web-enabled loan application system with built-in edit and completion checks to ensure all required fields are completed would assist in resolving the incomplete applications issue while significantly streamlining the review process. The web-enabled application could assign a user name and password to applicants and provide them with information on the status of the application, including sending them electronic reminders on deadlines. This would add to overall customer satisfaction.

- (iii) Further, on the State Revolving Fund programs, the review found that clients generally do not comply with the 14-day response deadline required by 31 Texas Administrative Code §371.31 and §375.41. Seventy-one percent (5 out of 7) of the CWSRF client responses reviewed were not submitted within 14 days. While each information request reviewed stipulated the 14-day deadline, staff has not been enforcing it. The review found no evidence of management authorization in these cases. Not only does this practice violate TWDB rules, it creates for the agency potential legal exposure and adds to the inefficiencies of the loan application review process. In addition, implementing a similar deadline with state programs would assist in improving timeframes.
- (iv) For many of the applications that had a lengthy administrative review due to an incomplete application, the review found that TWDB had not held a pre-application meeting with the client. While pre-application meetings are not required, they provide TWDB staff with an opportunity to explain the application process (including the various required forms) answer any questions, and obtain a better idea of the proposed project. In many cases, at the pre-application meeting stage, the client has not decided on which one of a number of alternatives it is going to adopt in solving the environmental/water problem. In other cases the project definition evolves between the Project Information Form (PIF) submittal and the application, almost a year later. The lack of clarity in many of these cases would seem to suggest the agency should be utilizing more of the planning acquisition and design (PAD) funding option. In addition, the PAD poses less financial risk for the agency, based on the smaller dollar amount. Staff should take advantage of the pre-application meeting to provide as much advice on the most desirable solution to reduce the likelihood of future changes in project scope, while obtaining some understanding on the client's "readiness to proceed."
- (v) For the sample of applications reviewed, once administratively complete, it took staff an average of a week to distribute the application to the review team, adding to the inefficiencies of the process. The application distribution process has been in transition throughout this review. Reviewers have indicated that they have received the application as a hard copy, an electronic copy (on a compact disk) and that they also accessed the application in TxWISE. The TxWISE database makes the need to "distribute" the application redundant. In addition, it reduces the risk that staff will review an older version of the application. An email notifying the multi-disciplinary team that the application is available in TxWISE would reduce the review timelines by at least a week.

## Recommendations

Improve the timeliness of “administratively complete” reviews by:

- (i) Setting formal measurable performance targets, tracking actual performance and holding staff accountable and using performance data to achieve a more evenly-distributed workload.
- (ii) Enforcing client deadlines and holding staff accountable for noncompliance with agency rules and procedures.
- (iii) Extending the agency’s 14-day client response deadline to the state programs.
- (iv) Considering whether to require each area to perform its own “administratively complete” review or to assign the review to technicians, following appropriate training.
- (v) Revising the PIF to include more information on the proposed project, including (where possible) information on the client’s readiness to proceed.
- (vi) Requiring potential applicants to participate in a pre-application meeting before submitting their application.
- (vii) Considering implementing an online loan application system.

## Management’s Response

- (i) Management agrees that measurable performance targets should be identified and utilized to track performance, now that TxWISE provides the tool to perform the tracking. The performance data will be utilized to structure the workload, within available budget.

Responsible Parties: General Counsel, Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program and Policy Development; Deputy Executive Administrator, Project Oversight; and Director, Project Development.

**Target Implementation Date:** 01/31/2013

- (ii) Management agrees that deadlines will be identified and clarified, with procedures in place for elevating client issues that prevent meeting deadlines.

Responsible Parties: Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program and Policy Development; Deputy Executive Administrator, Project Oversight; and Director, Project Development.

**Target Implementation Date: 01/31/2013**

- (iii) Management will consider extending the client response deadline to state programs.

Responsible Parties: Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Project Oversight; and Director, Project Development

**Target Implementation Date: 08/31/2012**

- (iv) Management will consider the most efficient and effective way to perform "administratively complete" reviews.

Responsible Parties: General Counsel, Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program and Policy Development; Deputy Executive Administrator, Project Oversight; and Director, Project Development.

**Target Implementation Date: 08/31/2012**

- (v) Management agrees. The Readiness to Proceed Form was implemented during November 2011 for all State Revolving Fund Projects. All projects must submit this form. The form is used to make the determination of what phases/how much funding will be offered to the project for that commitment.

Responsible Parties: Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program and Policy Development; and Director, Program Development.

**Target Implementation Date: 11/30/2011**

- (vi) Management agrees that participation in pre-application meetings is useful, and potential applicants for the SRF programs are required, via language in the invitation letter, to participate in pre-application meetings starting with invitations extended for SFY 2012.

Responsible Parties: General Counsel, Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program and Policy Development; Deputy Executive Administrator, Project Oversight; and Director, Project Development.

**Target Implementation Date: 08/31/2012**

- (vi) Management agrees that this would be beneficial. This will be considered, along with other technology projects, for prioritization.

Responsible Party: Deputy Executive Administrator, Operations & Administration.

**Target Implementation Date: 08/31/2012**



## 2.1.2 Technical Reviews

### Observation

- (i) The technical reviews are not performed in a timely manner. The legal, financial, engineering, and environmental reviews take an average of 73, 94, 76, and 89 days, respectively, from the date the application was “distributed” to the review team to the date the review was completed. This is based on the review of a sample of 16 applications, with completion dates being obtained from TxWISE, wherever possible. If not in TxWISE, the review dates were obtained from the relevant reviewers. Even after a project is declared “administratively complete” and distributed for technical review, staff often requires further information to complete the review. While this is mainly because an “administratively complete” application does not address technical and eligibility requirements, it suggests that the TWDB financial assistance standardized application may not be requesting the right information. For example, the application requests community data that is available from the Census Bureau. This makes a periodic review of the standardized application necessary, to ensure it continues to meet TWDB’s information needs.

As indicated above, clients generally do not comply with the 14-day deadline required by 31 Texas Administrative Code §371.31 and Code §375.41. This can add a significant amount of time to the review since many of the reviews involve more than one information request. TWDB procedures do not limit the amount of time staff can devote to an application. This would not only assist with streamlining the process, it would provide more accountability.

Having several information requests within a single review seems to suggest that staff does not have a reasonable understanding of the project before the application is submitted. This, in turn, suggests the pre-application meeting and other efforts to gain this understanding require improvement. Currently, the majority of the pre-application meeting is spent taking the client through the standardized application form. Since the form is available online, the agency’s interests may be better served if staff utilize some of this time to ask probing and informed questions about the proposed project. This may require staff to obtain more information about the project before the pre-application meeting. That way, staff would be in a better position to determine if the project definition clearly defines the scope.

Despite the availability of monitoring tools in TxWISE, some staff continues to use unsophisticated tools for tracking applications. For example, many reviewers do not utilize TxWISE project milestone reminders, tools that are necessary when handling several projects at once.

- (ii) Staff spends a considerable amount of effort and time working on applications that do not reach commitment stage (i.e. either the applicant withdraws or the TWDB bypasses the application mostly because the client has failed to provide the information required). A review of six of the withdrawn applications showed them to have been withdrawn after an average of 160 days, ranging from 94 to 226. In some cases, TWDB staff made several requests for information before the withdrawal. This represents a sizable opportunity cost to the agency, considering a fair proportion of the applications received are withdrawn. While slowly changing, the culture has been to “work with the applicant for as long as it takes” to get an acceptable application. Discussions indicate that staff does not feel empowered to reject incomplete applications. A viable process requires a balance - a very delicate one in this case. Clearly, staff requires more guidance, coaching and oversight to assist with striking the right balance. A procedure that limits the amount of time the TWDB can spend on an application and some rejection criteria would provide staff with much needed guidance and a means to hold clients accountable, while reducing any potential legal exposure.
- (iii) The firefighting that occurs between the agenda meeting and mail-out suggests that management should be made aware of the issues earlier in the process. Many of the issues are not resolved until close to or after loan committee, resulting, in some cases, in delays in presenting the application to the Board. This late resolution of issues suggests that many of the weekly meetings designed to discuss and resolve issues are not effective. (Staff attends more than 25 of such meetings in a typical application review cycle). This is excessive.
- (iv) Despite the many meetings and ongoing discussions between reviewers and their supervisors, the reviews (and write-ups) go through several levels of review.
- (v) An opportunity to streamline the depth/level of some reviews exists based on the risk posed by each specific project. For example, the audit found that the review for a \$310,000 planning, acquisition, and design (PAD) loan took 69% longer than that for a \$3.5 million pre-design funding loan, at 135 and 80 days, respectively. This increases the risk that resources are not used efficiently. Planning, acquisition, and design loans are generally a lot less risky than pre-design loans, based on the loan amount and the shorter project turnaround. While staff would have to ensure, at the very minimum, that program requirements are met, the risk is not as much as in the case of a typical pre-design loan. In addition, clients with good credit ratings from nationally recognized credit rating agencies and a good history with the TWDB may pose less risk than those that are not rated. Needless to say, a risk-based approach would require management to provide staff with strict guidelines, training and oversight.

## Recommendations

Improve the timeliness of application reviews by:

- (i) Brainstorming on ways to obtain (upfront) some of the information commonly requested after the application is submitted. (Staff may need to ask for more information in preparation for the pre-application meeting).
- (ii) Re-evaluating the purpose of the pre-application meetings.
- (iii) Performing periodic reviews of the standardized application to ensure it continues to meet TWDB's information needs.
- (iv) Implementing a substantive loan committee-type meeting approximately a week into the start of the review process to discuss the issues. To improve ongoing real-time discussion of the issues, establish a discussion forum with management participation.
- (v) Improving staff understanding of the project by revising the PIF (for federal programs) to require a more detailed description of the proposed project. In addition, improve the effectiveness of the pre-application meeting by requiring the attendance of the client's main review contacts (i.e. Financial Analyst, Engineer and Bond Counsel). There may be some benefit in also including the TWDB's Program & Policy Development staff in the pre-application meeting.
- (vi) Empowering staff to reject poor quality/incomplete loan applications, based on guidelines.
- (vii) Improving oversight and guidance, especially in setting priorities and resolving issues. In addition, provide staff with firm guidelines on when to reject an application.
- (viii) Wherever possible, considering a reduced level of technical review on the less risky clients. Such a risk-based approach would require management to provide staff with strict guidelines, training and oversight.

## Management's Response

- (i) Management agrees that information commonly requested should be reviewed and determination will be made on how better to obtain the information.

Responsible Parties: Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program and Policy Development; Deputy Executive Administrator, Project Oversight; and Director, Project Development.

**Target Implementation Date: 01/31/2013**

- (ii) Management will review the purpose and effectiveness of all meetings and determine ways to improve.

Responsible Parties: General Counsel, Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program and Policy Development; Deputy Executive Administrator, Project Oversight; and Director, Project Development

**Target Implementation Date: 10/31/2012**

- (iii) Management will incorporate a potential loan committee type meeting earlier in the process in its discussion of all meetings. A discussion forum in TxWISE will be considered, but must be prioritized within existing TxWISE needs.

Responsible Parties: General Counsel, Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Operations & Administration; Deputy Executive Administrator, Program and Policy Development; Deputy Executive Administrator, Project Oversight; and Director, Project Development.

**Target Implementation Date: 10/31/2012**

- (iv) The Project Information Form for SFY 2013 includes the Readiness to Proceed criteria that is included in a form during SFY 2012. Starting with PIFs received for the upcoming funding cycle, TWDB staff will have more detailed data about the project milestones and schedule up front to offer more specific and appropriate invitations to SRF projects. Attendance at pre-application meetings will be reviewed, but may be constrained by available resources.

Responsible Parties: General Counsel, Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program and Policy Development; Deputy Executive Administrator, Project Oversight; and Director, Project Development.

**Target Implementation Date: 08/31/2012**

- (v) Management agrees there should be performance targets, and will consider procedures to guide staff on the appropriate timeframe to consider an application and the appropriate process to be followed after the timeframe is exceeded which may include elevating to management for consideration of rejecting the application.

Responsible Parties: General Counsel, Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program and Policy Development; Deputy Executive Administrator, Project Oversight; and Director, Project Development.

**Target Implementation Date: 08/31/2012**

- (vi) Management agrees there should be guidelines and will consider procedures to guide staff on the appropriate quality/completeness of an application, and the appropriate process to be followed if the application is of poor quality/incomplete, which may include elevating to management for consideration of rejecting the application.

Responsible Parties: General Counsel, Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program and Policy Development; Deputy Executive Administrator, Project Oversight; and Director, Project Development.

**Target Implementation Date: 08/31/2012**

- (vii) Management will improve the oversight and guidance through the updating of procedures to include priorities and guidelines on handling poor quality or incomplete applications.

Responsible Parties: General Counsel, Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program and Policy Development; Deputy Executive Administrator, Project Oversight; and Director, Project Development.

**Target Implementation Date: 08/31/2012**

- (viii) Management will consider efficiencies where possible while keeping in mind the fiduciary responsibility to the state in reviewing all loans as to the expectation of repayment.

Responsible Parties: General Counsel, Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program and Policy Development; Deputy Executive Administrator, Project Oversight; and Director, Project Development.

**Target Implementation Date: 08/31/2012**

## 2.2 Quality control review

### Observation

Management's quality control review process is bureaucratic, consuming and inefficient. Staff reviews are followed by several levels of management review, including a loan committee review. Apart from the loan committee and the credit committee, it is not clear what each level of review is checking for. Discussions indicate that these supervisory reviews tend not to generate substantive changes to the reviewer's assessment. For the most part, the quality control review process (for legal and financial) is focused on the write-up, with little evidence of checking the review and analysis against supporting documentation. In addition, having several levels of review may provide staff with a false sense of comfort where it is not as thorough relying on someone else to catch errors. This elevates the risk that analyst errors will not be detected. The current process is lengthy. It creates a bottleneck within the process and does not ensure accountability.

The recent implementation of the agency's loan committee provides an opportunity for streamlining the management reviews currently performed as part of the Board write-up. Management does not track and maintain information on the length of each stage of the review. Thus, the audit could not determine which stages of the review were responsible for the most delay.

### Recommendations

Streamline the current quality control review into a crisper and more substantive process. Reduce the levels of review, while making each review more substantive.

### Management's Response

Management agrees and has implemented steps to reduce levels of review by utilizing the existing loan committee process.

Responsible Parties: General Counsel, Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Project Oversight; and Director, Project Development

**Target Implementation Date: 1/31/12**

#### 2.3 Board Write-up Process

### Observation

The Board write-up process is manual and inefficient, and should be streamlined. Some write-ups go through several levels of editing. Management has not communicated expected quality standards. The write-up could be more standardized and streamlined to facilitate a more efficient review of the key information by the Board. Discussions indicate that management is in the process of revising the Board write-up template. While this could improve the clarity of the information presented to the Board, it will not improve the efficiency with which the information is gathered, summarized, reviewed and approved. A style guide would go a long way in achieving consistency. Currently, the process that combines the different pieces from the different disciplines into one write-up is manual. The engineering and environmental areas are using report writer to develop their Board memos. A more efficient process would extract all pieces of the Board write-up from the database with the use of a memo writer.

The final Board write-up is reviewed and signed off on by more than 10 individuals, which makes it difficult to hold any one person accountable. The current process is lengthy and does not ensure accountability.



### Recommendations

Improve the Board write-up process by automating and streamlining the development, review and approval of the write-up, while tracking the timeliness of each step in TxWISE.

### Management's Response

Management agrees and is currently in the process of revising the style of the Board memo, as well as the process. While some areas of the agency have embraced the use of TxWISE for this process, others are currently implementing TxWISE in anticipation of the time it becomes the system of record.

Responsible Parties: General Counsel, Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Project Oversight; and Director, Project Development.

**Target Implementation Date: 06/30/2012**

#### 2.4 Utilizing TxWISE

### Observation

The agency's new project management information system is not being used to its full potential. With the exception of Project Engineering and Review, reviewers have not embraced the agency's new project information system. This is mainly due to management not enforcing the use of TxWISE. Bypassing TxWISE means, at any point in time, the database has gaps in key fields (e.g. technical review results, and sign-offs on checklist items) which reduces the benefits derived from such a database. Not only are these reviewers not benefiting from TxWISE's more sophisticated monitoring tools, they are essentially denying the rest of the multi-disciplinary project team their information. Apart from checklists and milestones, TxWISE provides users with an opportunity to document project-related communications (both written and oral). While the audit recognizes that TxWISE is still evolving, and is currently experiencing some post-implementation problems, the significant investments in time, money, and staff that went into the implementation require that staff utilizes the system.

A review of project milestones and checklists in TxWISE found that many loan commitments were made despite the project's outstanding checklist items. In addition, the audit also found incidents where staff had signed-off on checklist items that were not assigned to them. This undermines the usefulness of checklists. Ideally, supervisory reviews should ensure completion of the required performance and quality control standards before signing-off on the Board write-up.

Reviewers are not adding documents to TxWISE in a consistent and timely manner. The reviewers do not utilize a standardized file indexing system. Thus, it is difficult to search for files

in an efficient manner. In addition, the review found that some documents were added to the database many days after the event. In addition, TxWISE updates are not performed in a timely manner. For example, the audit found that it took staff an average of 26 days to update TxWISE client responses for a sample of 7 responses. In another example, staff still had not signed-off on Board commitment milestones on projects that were committed 6 months prior. This means that the project status for these is inaccurately reflected as “under review” as opposed to “commitment.” In addition, TxWISE data has not been revised for changes that were implemented as part of the recent TWDB reorganization. For example, a number of the database project tasks currently assigned to “Project Leads” were reassigned to Financial Assessment several months ago. These issues undermine the value of the database as a means to share information on project developments and status.

Finally, TxWISE is currently not set up to track milestones for more than a single application per project. This could create issues in the future, especially with the agency’s current efforts to increase the use of planning, acquisition, and design (PAD) loans. TWDB places too much reliance on one person for resolving database management issues. The agency needs to put in place a contingency plan to minimize business disruption in the event of employee turnover.

## Recommendations

Improve operational efficiency with the use of TxWISE by:

- (i) Requiring reviewers to utilize TxWISE. Reviewers should perform their reviews in TxWISE as opposed to only signing-off on the checklist.
- (ii) Tightening controls within TxWISE to ensure staff can only sign-off on checklist items assigned to them.
- (iii) Requiring quality control procedures to include verification of completion of the TxWISE checklist.
- (iv) Requiring reviewers to utilize the TxWISE milestone and electronic reminder service.
- (v) Setting guidelines and performance targets on the timeliness, and consistency with which milestones and other important information is entered into the database.
- (vi) Updating TxWISE for changes in roles and tasks in a timely manner.
- (vii) Enhancing TxWISE to allow tracking of milestones for multiple applications within the same project.
- (viii) Providing cross-training to minimize business disruption in the event of staff turnover.

### Management's Response

- (i) Management agrees that TxWISE should be fully utilized to the extent it can at this time.

Responsible Parties: General Counsel; Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Water Resources Planning & Information; Deputy Executive Administrator, Water Science & Conservation and Director, Project Development.

**Target Implementation Date: 05/31/2012**

- (ii) Management agrees that staff should be clear on the assignment of items. While this may be possible in TxWISE, it would have to be prioritized, and may not be as high a priority as completing implementation. As a procedural issue this can be accommodated through updated procedures.

Responsible Parties: General Counsel; Deputy Executive Administrator, Construction Assistance; and Director, Project Development.

**Target Implementation Date: 08/31/2012**

- (iii) Management agrees that the quality control procedure should be addressed in the written procedures and TxWISE should be utilized to the fullest extent.

Responsible Parties: General Counsel; Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Project Oversight; and Director, Project Development.

**Target Implementation Date: 08/31/2012**

- (iv) Management agrees that TxWISE attributes should be utilized, whether automated milestones or manual reminders accomplished through reports.

Responsible Parties: General Counsel; Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Project Oversight; and Director, Project Development.

**Target Implementation Date: 08/31/2012**

- (v) Management agrees that information should be entered in to TxWISE in a timely manner and guidelines will be included in the procedures.

Responsible Parties: General Counsel; Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Project Oversight; and Director, Project Development.

**Target Implementation Date: 08/31/2012**

- (vi) Management agrees that TxWISE should be updated for changes in roles and responsibilities, in accordance with the updated procedures.

Responsible Parties: General Counsel; Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Operations & Administration; Deputy Executive Administrator, Project Oversight; and Director, Project Development.

**Target Implementation Date: 09/30/2012**

- (vi) TxWISE tracks milestones for multiple loans within the same project after closing. Management will consider, based on staff input, whether this should be available prior to closing. If so, this will have to be considered within the prioritization of all TxWISE enhancements

Responsible Parties: General Counsel; Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Operations & Administration; Deputy Executive Administrator, Project Oversight; and Director, Project Development.

**Target Implementation Date: 06/30/2012**

- (vii) Management agrees that cross-training is beneficial, and has identified training opportunities and software to reduce the reliance on one person. Management also recognizes that the documentation of processes reduces the likelihood of business disruption in the event of employee turnover.

Responsible Parties: General Counsel; Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Operations & Administration; Deputy Executive Administrator, Project Oversight; and Director, Project Development

**Target Implementation Date: 06/30/2012**

## Safeguarding State Assets – Due Diligence Reviews

Overall, the due diligence review process has the necessary components, including legal, financial, planning, engineering, and environmental, to ensure that the project for which financial assistance is being sought provides a feasible, cost-effective, and program-eligible solution to the water management problem at hand, and that the client is financially capable to repay the loan. However, opportunities for improvement were noted in the consistency with which the technical reviews are performed and the manner in which they are documented, as briefly described below:

### 2.1 Review Documentation

#### Observation

- (i) The level of documentation of the financial review is generally inadequate and lacks consistency from one reviewer to another. Some reviewers do not maintain work papers. Some record the results of their analysis on the Evaluation Criteria table while some maintain elaborate workings on how they reached their credit score rating. The inadequate documentation makes it difficult to determine the extent to which the reviewer has substantiated the applicant's information. Similarly, the level of legal review documentation is inadequate and inconsistent from one reviewer to another. Management has not made its expectations clear. Not only do the relevant written work procedures not specify the required level of documentation, management has not made the creation of documentation standards a priority. In addition, the written procedures do not specify the extent to which the applicant's information should be verified against third party information sources. This elevates the risk of financial and legal exposure.
- (ii) Some of staff's financial viability assessments were not consistent with the TWDB's credit score definitions. This elevates the risk of inconsistent ratings.
- (iii) Financial review results are not recorded in TxWISE, denying TxWISE users some of the benefits of using a centralized database. These results inform some of the decisions made in other areas. For example, the engineering review team includes the client's TWDB credit rating in its determination of level of oversight appropriate for the project. Currently, the engineering team obtains the information from the Board write-up, which is not as efficient.
- (iv) The reviewers sign-off on checklists (in TxWISE) for evidence of review completion. However, the review found that checklist steps generally do not describe the due diligence performed but are more appropriate for ensuring the application is complete. This seems to be a duplication of the administratively complete review. This is true for legal and financial checklists. The engineers utilize a completion checklist (for ensuring the application includes all of the required information) and another checklist for the due diligence work performed.

With the standardized application, these (completion) review checklists may be redundant. At the very least, opportunities for streamlining the checklists exist.

- (v) As discussed above, most review work papers are not documented in TxWISE. Financial reviewers only utilize TxWISE for checklist completion. This denies the rest of the multi-disciplinary team of the analysis performed and relevant client correspondence. The majority of legal review staff does not use TxWISE, and thus do not sign-off on the TxWISE checklist. The TxWISE legal checklist is an integral part of the use of TxWISE, to ensure a thoroughly coordinated process – commencing with application and concluding with commitment and closing. The legal review and sign-off is critical to the loan application process and should be appropriately documented.
- (vi) There was no evidence of a review for compliance with Disadvantaged Business Enterprise (DBE) program requirements for 30% (3 out of 10) of the applications reviewed for DBE compliance. This is because the quality control review does not always ensure completion of all checklist items.

Management has not made creating documentation standards a priority.

## Recommendations

Improve review documentation by:

- (i) Developing a standard for the required level of work paper documentation, with input from reviewers. The standard should also include the expected substantiation procedures for each item, which should be part of the technical review checklist. Reviewers should check for compliance with documentation standards as part of the quality control review.
- (ii) Providing more guidance on credit rating and minimum review and substantiation requirements, for consistency.
- (iii) Requiring staff to input review results in TxWISE.
- (iv) Revising review checklists to show the actual work, including substantiation procedures performed, and including precise descriptions of what work is being checked off. In addition, requiring staff initials (as opposed to check marks) may provide more accountability.



### Management's Response

- (i) Management agrees and will ensure that the standards of documentation are included in the updated procedures.

Responsible Parties: General Counsel; Deputy Executive Administrator, Construction Assistance; and Director, Project Development.

**Target Implementation Date: 08/31/2012**

- (ii) Management agrees and will ensure guidance is included in the updated procedures.

Responsible Parties: General Counsel; Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Project Oversight; and Director, Project Development.

**Target Implementation Date: 08/31/2012**

- (iii) Management agrees and will ensure this requirement is included in the updated procedures.

Responsible Parties: General Counsel; Deputy Executive Administrator, Construction Assistance; and Director, Project Development.

**Target Implementation Date: 08/31/2012**

- (iv) Management agrees, and will review what would be required to make these changes in TxWISE. Any necessary changes would be prioritized with other TxWISE enhancements.

Responsible Parties: General Counsel; Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Operations & Administration; Deputy Executive Administrator, Program & Policy Development; and Director, Project Development.

**Target Implementation Date: 09/30/2012**

### 3. Regulatory Compliance

Overall, the TWDB's loan application review process controls provide reasonable assurance that compliance with federal, state and TWDB requirements will be achieved. TWDB procedures utilize checklists for ensuring the application is complete and that it complies with specific loan program requirements. The checklists not only guide the review process, they also assist in ensuring consistency of interpretation and treatment. However, as discussed, the checklists generally do not reflect the actual work performed and need updating. Other opportunities for improvement exist regarding TWDB policies and written procedures.

#### 4.1 TWDB Policies

##### Observation

The agency lacks a central depository of TWDB policies. Each area has a number of "agency policies" handed down over the years. The policies are not standardized and numbered and, thus, there is no easy way to ascertain the consistency and completeness of the various "policy" books. In addition, discussions revealed staff confusion over the differences between policy, procedure, and practice. Legal Services, in collaboration with Policy Development, should provide leadership and guidance on this issue. The guidance should include specific requirements on developing TWDB policies.

##### Recommendations

- (i) Legal Services, in collaboration with Policy Development, should develop a central depository of TWDB policies.
- (ii) Publish the policies on the TWDB intranet, with notifications to staff on revisions as and when they occur.
- (iii) Publish the policies on the internet, for stakeholder use.
- (iv) Periodically review the policies for continued relevance.

##### Management's Response

- (i) Management agrees that policies should reside in a central area.

Responsible Parties: General Counsel and Deputy Executive Administrator, Program & Policy Development.

**Target Implementation Date: 12/31/2012**

- (ii) Management agrees that policies should be available to all employees, with the intranet being an appropriate repository.

Responsible Parties: General Counsel and Deputy Executive Administrator, Program & Policy Development.

**Target Implementation Date: 12/31/2012**

- (iii) Management agrees that policies affecting stakeholders should be available so they can be aware of requirements and considerations.

Responsible Party: General Counsel

**Target Implementation Date: 01/31/2013**

- (iv) Management agrees that policies need to be reviewed on a periodic basis and will develop a procedure to ensure policy review is documented.

Responsible Party: General Counsel

**Target Implementation Date: 01/31/2013**

#### 4.2 Utilizing the Planning, Acquisition, and Design (PAD) Funding Option

### Observation

The agency's Intended Use Plan (IUP) asserts that "fundable projects that have not completed planning, acquisition and design activities will receive an invitation to fund only the PAD portion of the project." While most of the projects reviewed had not completed their planning, acquisition and design activities, only 1 of the 12 State Revolving Fund (SRF) projects selected for review were funded through the PAD option. Even in cases where the application review took considerable amounts of time due to "the project not having been clearly defined", there is no evidence that staff gave the PAD option serious consideration. Discussions indicate that the PAD was introduced as an option, not a requirement, and that staff generally resorted to the client (not TWDB procedures) for the call on which funding option the agency should use.

Continuing to utilize the pre-design funding (PDF) option in all cases where the planning, acquisition, and design activities are not complete is not consistent with the intention of the IUP. In fact, the IUP aims to "discontinue the PDF in the future." In many of these cases the PDF represents more risk for the agency, based on the level of uncertainty caused by the extended period between the loan application and project completion. As discussed above, PAD loans are a lot less risky, based on the loan amount and the shorter timeframe, and provide TWDB with more time to ensure that "there are no significant permitting, social, contractual, environmental, engineering, or financial issues that would make the funding unavailable." The quality control review does not ensure serious consideration of the PAD option. In addition, the review process has not implemented formal criteria to provide staff with the much needed guidance on which funding option to use.

After 15 years of issuing PDF loans, this represents a significant change in culture for both the staff and clientele and, thus, will require a considerable amount of management support, guidance and oversight.

### Recommendations

Improve utilization of the PAD, in line with TWDB's SRF procedures by:

- (i) Implementing formal detailed criteria on when staff can utilize which funding option. Program and Policy Development should develop the criteria in consultation with Legal Services, Financial Assessment, Construction Assistance, and Project Oversight.
- (ii) Incorporating the criteria into TWDB guidance and policy.
- (iii) Marketing the PAD option to TWDB clients.
- (iv) Holding staff accountable for adhering to the criteria.

### Management's Response

- (i) Management agrees. In November 2011 staff implemented the use of a Readiness to Proceed Form for potential applicants. The use of the information from this form will be documented in procedures to provide guidance on utilization of funding options.

Responsible Parties: Deputy Executive Administrator, Construction Assistance; and Deputy Executive Administrator, Program & Policy Development

**Target Implementation Date: 03/31/2012**

- (ii) Management agrees. In November 2011 staff implemented the use of a Readiness to Proceed Form for potential applicants. The use of the information from this form will be documented in procedures to provide guidance on utilization of funding options.

Responsible Parties: Deputy Executive Administrator, Construction Assistance; and Deputy Executive Administrator, Program & Policy Development.

**Target Implementation Date: 03/31/2012**

- (iii) Management agrees that borrowers should be aware of the PAD option. While there is no formal marketing area, Construction Assistance has been informing consultants about the benefits of the PAD option.

Responsible Parties: Deputy Executive Administrator, Construction Assistance; and Deputy Executive Administrator, Program & Policy Development

**Target Implementation Date: 8/31/12**

- (iv) Management agrees that staff should be accountable for adhering to all procedures identified by management. Performance plans should incorporate loan application procedures as updated.

Responsible Parties: Executive Administrator; General Counsel; Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program & Policy Development; Deputy Executive Administrator, Project Oversight; and Director, Project Development

**Target Implementation Date: 01/31/2013**

#### 4.3 Written Procedures

### Observation

The agency lacks a central depository of written procedures that guide the loan application process. Such a depository would provide the big picture and increase interdisciplinary project teams' awareness of the process. This should assist in improved communication. The written procedures on the intranet are not up to date.

### Recommendation

Develop a central depository of written procedures that guide the loan application process.

### Management's Response

Management agrees that procedures should be available in a central repository.

Responsible Parties: General Counsel; Deputy Executive Administrator, Construction Assistance; Deputy Executive Administrator, Program & Policy Development; Deputy Executive Administrator, Project Oversight; and Director, Project Development.

**Target Implementation Date: 10/31/2012**

## **BASIS OF REVIEW**

### Objective & Scope

The objective of this review was to determine the extent to which the TWDB's loan application process ensures that strategic and operational results and outcomes are achieved in an efficient and effective manner, and in compliance with relevant laws, policies and procedures. In addition, the review sought to determine the extent to which the process ensures the reliability and integrity of information and that the TWDB's assets are safeguarded.

The review focused on the application review process beginning from pre-application meeting to Board commitment and primarily on activities from September 1, 2010 to November 30, 2011. Fieldwork was conducted from October through November, 2011.

### Criteria

Our audit was based upon standards as set forth in the Texas Administrative Code, TWDB's CWSRF Intended Use Plan, TWDB's DWSRF Intended Use Plan, and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### Background

The TWDB's financial assistance program aims to provide loans at interest rates lower than the market to political subdivisions and other authorized entities for the construction of water related infrastructure and other water quality improvements under several programs. Key programs include the Clean Water State Revolving Fund (CWSRF), the Drinking Water State Revolving Fund (DWSRF), Rural Water Assistance Fund (RWAFF), Water Infrastructure Program (WIF), and the Economically Distressed Areas Program (EDAP). The TWDB has committed over \$1 billion over the last two calendar years, to mostly customers with a credit rating of 2B and above. Only 2 percent of the funds committed were to clients with a TWDB internal credit rating of 2C and lower.

The loan application review function is shared between Legal Services, Program & Policy Development, Project Development, Project Engineering & Review, and Project Oversight. The process impacts and is impacted by all of the functions within the agency.



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